

Highlights

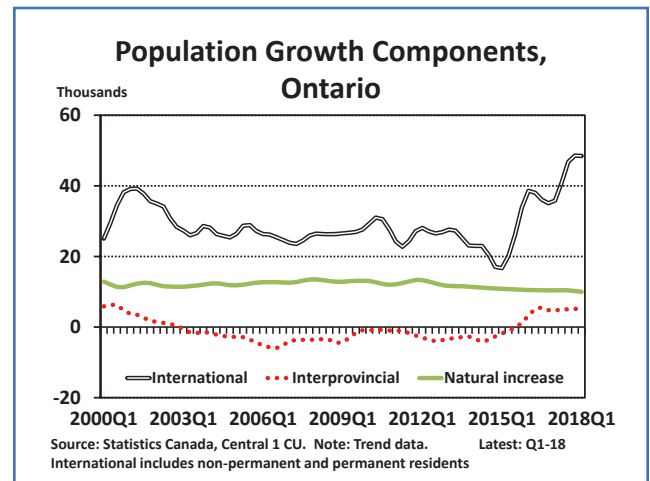
- Ontario's population grew faster than the national estimate in the first quarter
- Existing homes market descends further into balanced market territory
- Retail Sales declined 2.3 per cent in April
- Gasoline prices increased 21.3 per cent year-over-year in May
- Almost 95 per cent of April's drop in EI claims occurred in urban centres

Immigrants continued to significantly support population growth

Ontario's population continues to expand at a strong pace with most of the gains in population coming from a significant and continued influx of people coming from abroad either on a permanent basis or on a temporary basis to study and/or work. As of the end of the first quarter of 2018 the province's population increased year-over-year by 1.8 per cent to 14.4 million, an additional 249,779 residents. Moreover, Canada's population also increased by 1.4 per cent year-over-year this quarter to 37.1 million persons, an additional 506,235 new residents of which over 49.3 per cent of that growth came from Ontario.

By population growth component, natural increase - the difference in births from deaths - continues to be a drag to population growth. Since the first quarter of 2014, the growth in deaths has off-set the growth in births, putting downward pressure on natural increase. Even with strong international migration, the effects of an aging population continued to be felt as more people pass away and births are not occurring at the same pace. Furthermore, this quarter's rate of natural increase is the lowest in recorded history since 1946.

International migration continues to strongly support population growth. Both permanent resident and non-permanent resident growth has increased into the double digits since the third quarter of last year. Finally, interprovincial migration - the movement of people from one region of Canada to Ontario - continued to



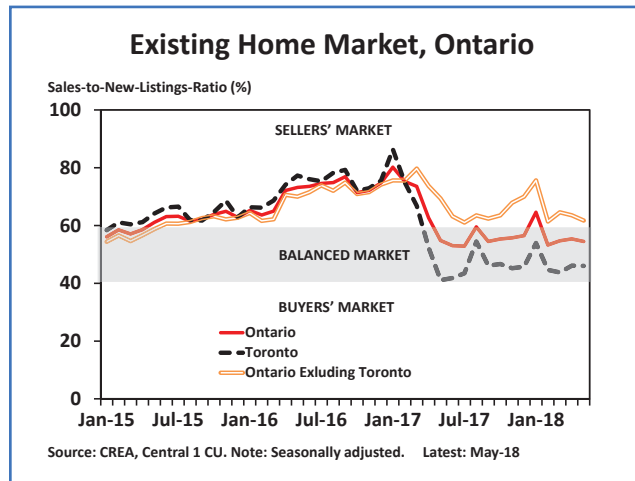
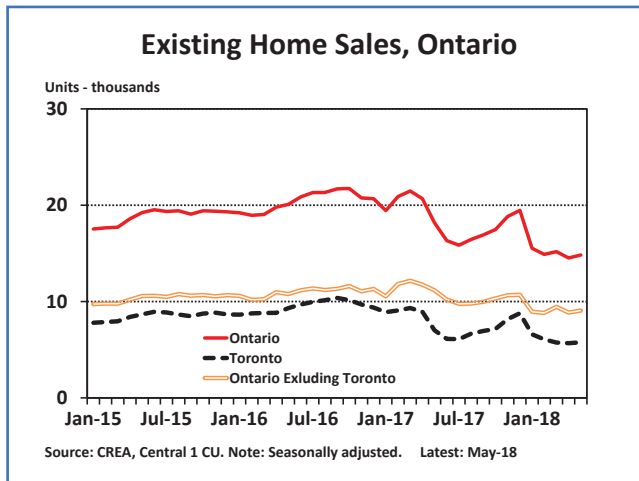
favour Ontario. On a net basis, since the third quarter of 2015, more people are coming to Ontario than leaving the province. The most recent interprovincial migration estimates show that the majority of people settling in Ontario from other parts of Canada came from the Western provinces (over 56 per cent of the total). Ontario attracted most people from Alberta and British Columbia. With a recent economic downturn in Alberta, many Ontarians who left to seek their fortunes are coming back home. The movement of people from British Columbia could be retirees cashing in on their homes and using the difference in value to live comfortably during their golden years in Ontario.

Ontario's population is currently tracking higher than our provincial forecast released in June¹. Then, we felt that population growth would slow down somewhat from 1.6 to 1.5 per cent but still stay above the long-term trend. Ontario's economy will continue to attract people for work and educational opportunities.

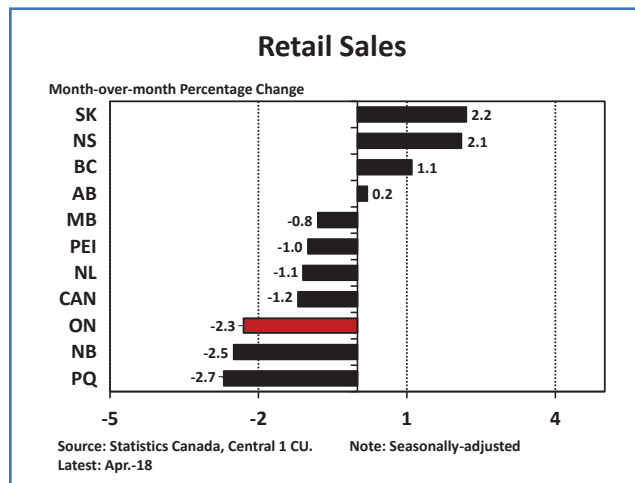
Sales turned around in May, but price growth remains in the red

Seasonally-adjusted existing home sales and new listings increased in May following a contraction in April. This was the first month this year that both sales and new listings increased. The jump in new listings (3.7 per cent growth) was stronger than the jump in sales (2.1 per cent growth) putting the market further into a balanced market. This marked the fourth consecutive month that the Ontario existing homes market was balanced.

¹ Ontario Rate Forecast, June 2018: <https://www.central1.com/wp-content/uploads/2018/06/June-18-Ont-forecast.pdf>



Even though both sales and new listings increased in May, the average price for all existing home types continued to decline coming in at \$548,582: a drop of 0.9 per cent from the previous month. Moreover, average price growth has declined for each of the first five months of this year. That said, the rate of decline decelerated in May, suggesting stabilization in prices. Two factors are at play here regarding price; with more choice this month, buyers were more selective and either purchased lower-priced homes or were able to negotiate lower prices when closing the sale. Also, the combination of the new federal stress-test and mortgage rates going up slightly in the month made purchasing more restrictive, so buyers continued to favour lower-priced, higher-density housing.



By market, several posted seasonally-adjusted sales jumps in the May; together, these markets make up about one-third of total sales in Ontario and were able to move the needle only slightly. Toronto, which accounts for almost 40 per cent of sales moved up slightly by 1.6 per cent, contributing to the turnaround in sales growth this month. Not surprising, as markets get further from the radius of the Greater Toronto Area, sales growth numbers are more robust.

Retail sales declined in April

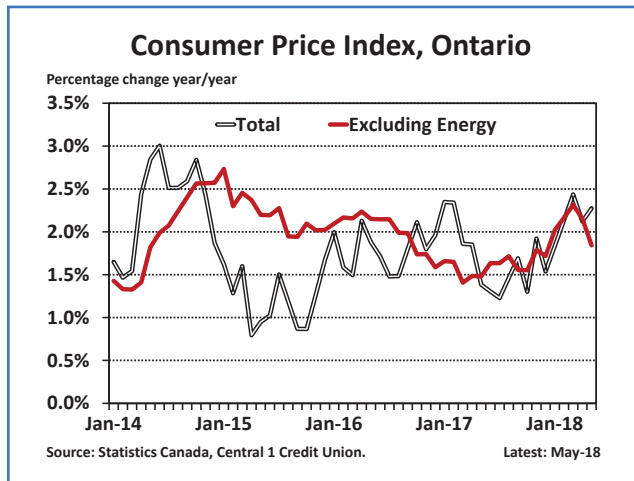
Ontario's retail sales declined in April by 2.3 per cent to \$18.1 billion, after posting modest growth in March. Overall Canadian retail sales also declined in the month, due to lower sales not only in Ontario but also in five other provinces.

Despite the gains in sales and new listings this month in Ontario, over the first five months of the year all metrics are far below levels from the same time last year. Sales are down 25.5 per cent; new listings, 9.6 per cent; and average price by 9.7 per cent. The large declines posted in January when the new stress test was introduced continue to weigh market activity and will certainly weigh down on the year's final numbers - even if the market continues to slowly get up from the bottom as the year progresses.

By category, retail sales declined in seven of 11 categories, as consumers seem to be halting most discretionary spending. Significant retail sales declines occurred in:

- Motor vehicle and parts (five per cent)
- Building materials, gardening, etc. (2.4 per cent)
- Food and beverage (5.9 per cent)
- Clothing (5.3 per cent)
- Sporting goods and recreation (4.2 per cent)
- General merchandise (8.5 per cent)

Ontario retail sales recoiled in April from a general decrease in activity throughout the province, not only



in Toronto. Toronto's retail sales declined by 2.9 per cent but excluding Toronto sales all other regions of Ontario also declined by 1.9 per cent. Of Canada's big three cities - Montreal, Toronto, and Vancouver - only Vancouver was able to post retail sales growth in April.

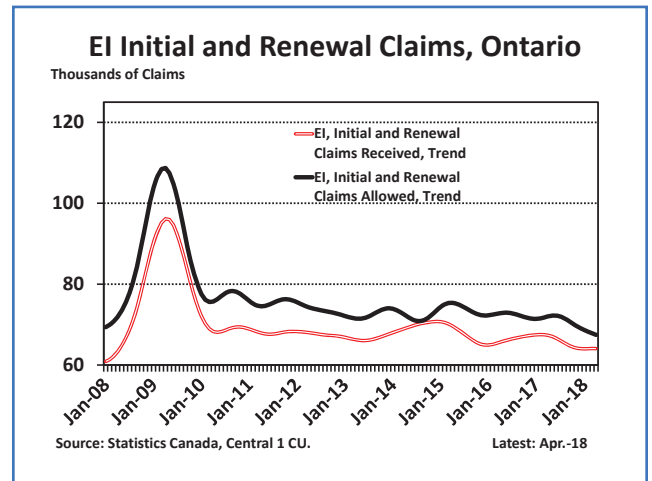
Higher gasoline prices are affecting automobile-related sales. Moreover, higher interest rates and already high pre-existing debt load is keeping consumers' belts tightened until they can find a little breathing room in their budgets.

Sweltering pace of gasoline price growth pushes headline inflation up

Year-over-year headline inflation continued to track above two per cent in May, moving up slightly up from last month by 0.2 points to 2.3 per cent, due to strong price growth in energy (7.8 per cent). Excluding energy, prices increased by 1.8 per cent in May. Gasoline prices continued a torrid pace of growth in May, moving up to 21.3 per cent growth year-over-year, compared to a 15 per cent year-over-year growth in April. Since the start of the year, gasoline prices have averaged 16.2 per cent growth year-over-year.

During the month, goods-sector prices edged up year-over-year to 1.8 per cent, up 0.5 points from last month. Since the start of the year, goods-sector prices have been moving up while the rate of growth of services-sector prices have been declining. In May, services-sector prices inched lower to 2.6 per cent year-over-year, down 0.1 points from April.

Year-over-year, the rate of price growth in Toronto continued to decline for the second straight month, due to lower shelter costs and particularly lower owned-shelter costs; rented shelter costs have remained steady. Given the homeownership policies, consumers are, in some cases, shying away from buying a home



and moving to or remaining in rental, and price growth data is reflecting this. In the nation's capital, prices have remained steady, oscillating around two per cent. In May, prices inched up higher to 2.3 per cent year-over-year - an increase of 0.1 points from the previous month. In Thunder Bay, headline inflation moved up to 1.7 per cent year-over-year from 1.4 per cent in April, due to slightly higher costs of owned-shelter.

EI claims dropped across almost all occupations in April

The number of Ontarians on Employment Insurance (EI) regular benefits declined in April by three per cent (3,630 claimants) due to growth in the Ontario labour market, following three straight months of employment and labour force contractions. With more hiring in the month, the unemployment rate stayed steady at 5.5 per cent, according to April's Labour Force Survey. During the month, claims fell across all age groups with the largest absolute drop coming from those workers aged 25 to 54 years of age (2,700 fewer claimants).

Seasonally-adjusted initial and renewal received claims declined by 1.6 per cent in April to 69,930 (1,120 fewer claims). While robust, the decline in April was not sufficient to erase the four per cent jump in claims in March, when 2,740 claims were filed. Compared to the long-term average April's claims are 3.8 per cent lower.

Of the 3,630 fewer claimants in Ontario in April, close to 95 per cent of them lived in Ontario's urbanized centres: Census Metropolitan Areas (CMA) and Census Agglomerations (CA). Specifically looking at CMAs, significant drop in claimants were recorded in:

- Windsor (7.1 per cent)
- Oshawa (6.6 per cent)

- London (6.7 per cent)
- Greater Sudbury (5.5 per cent)
- Thunder Bay (five per cent)

With the labour market turnaround in April, many claimants were able to return to work in their occupations. Almost all broad occupation categories in Ontario reported fewer EI claimants, with a few major sectors reporting significant declines which helped to pull the month's claims down. Specifically, workers stopped collecting EI in:

- Trades, transport and equipment operators and related occupations (1,080 fewer claimants)
- Occupations in manufacturing and utilities (170 fewer claimants)
- Occupations in education, law and social, community and government services (1,710 fewer claimants)
- Business, finance and administration occupation (550 fewer claimants)

Increased hiring continues to pull the unemployment rate below six per cent and in line with our forecast for the year of 5.7 per cent. Unemployment will edge from its current position to 5.7 per cent as increased hiring draws more workers to actively look for work.

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